

# **Social Enterprise: the Convergence of the Business and Social Responsibility Sectors**

---

Seo Young Byun  
Korea University

**August 2012**

Abstract

## **Social Enterprise: the Convergence of Business and Social Responsibility Sectors**

**Seo Young Byun**

Korea University  
Business School

Traditionally, the boundary between business and social responsibility sectors has been conspicuous in terms of values, major institutions involved and actual actions taken by them. In business, for-profit companies valued efficiency, competition and profit. In the scope of social responsibility, the primary players were the government, civic groups and volunteers, addressing and tackling social problems such as unequal distribution of wealth and environmental issues.

However, these two distinct spheres are undergoing a process of convergence. The first stage of this procedure is Corporate Social Responsibility (CSR). A more advanced and comprehensive manifestation is Social Enterprise.

Even though social enterprise in Korea has been regarded as an attractive solution to social problems and it ultimately should be, there are obstacles impeding its growth; i) financial instability, and ii) lack of competent human resources. This paper aims to suggest three feasible solutions to reducing the negative influence of the two primary barriers.

**Key words** Social Enterprise, CSR, Creating Shared Value, Convergence

## **I. Introduction**

The concepts of convergence and blurring traditional boundaries are becoming more common in all spheres as the world changes rapidly and in dynamic forms. This phenomenon is not exceptional to business, attested by the emergence of ‘Social Enterprise’. Social enterprise is a hybrid organization that exists to serve social purposes, yet pursuing economic stability through its own business operations at the same time. In that social enterprise manages two bottom lines – economic and social performance, – it is the manifestation of the convergence between the private and social responsibility sectors.

The significance of social enterprise derives from the conventionally held perception of the trade-off between the two factors. In other words, in order to provide societal benefits, corporations have had to temper their economic success<sup>1</sup>. However, there are positive signs indicating the potential of social enterprises. To exemplify, in the UK, approximately 55,000 social enterprises account for 5% of the labor market, implying an additional supply of employment, and 1% of GDP. Furthermore, they are responsible for 24 billion pounds of Gross Value added.

Even though social enterprises should be acclaimed for the potential to be an effective approach to solving social problems and for challenging the original paradigm, it is undeniable that most of them exhibit unsatisfying performance. Therefore, it is imperative to identify the obstacles hindering their growth and greater success, and to develop effective solutions, based on the findings.

Considering the importance of Social Enterprise in both contemporary business and society, this paper intends to satisfy three purposes: i) to overview the process of convergence of two

---

<sup>1</sup> Michael Porter and Mark Kramer, “Creating Shared Value.” Harvard Business Review 89-1/2 (2011): 64.

seemingly discrete realms, thus blurring the traditional border, by discussing CSR and Social Enterprise, ii) to investigate the barriers preventing social enterprises in Korea from showing extraordinary results, and iii) to recommend possible ways that may lead to improved performance of Korean social enterprises, benchmarking epitomes.

## **II. Traditional Division between Business and Social Responsibility Sectors**

Traditionally, the boundary between business and social responsibility sectors has been patent in terms of values or underlying mechanisms, major institutions involved and actual actions taken by them.

### **1. Business/Private Sector**

The private sector refers to the corporations and entrepreneurs utilizing markets to exchange goods and services to maximize profit, while driving increased innovation and productivity in the economy<sup>2</sup>. The three keywords in this definition that indicate the underlying mechanisms and values of business are market, profit and productivity.

The concept of a market is any structure that allows buyers and sellers to exchange any type of goods, services and information<sup>3</sup>. Theoretically, markets are supposed to be self-regulated by the ‘invisible hand’ which results in natural consensus between the participants – sellers and buyers – regarding how the exchange would take place. Such agreement is driven by selfish motives of both parties; to maximize profit and to increase utility, respectively. The whole society is supposed to benefit from the actions of individuals based on such self-centered

---

<sup>2</sup> Andrew M. Wolk, “Social Entrepreneurship & Government,” Small Business Economy: A Report to the President (2007).

<sup>3</sup> Wikipedia. “Market.” Last modified June 5, 2012. <http://en.wikipedia.org/wiki/Market>

drive.

From the perspective of the seller, specifically the corporations and entrepreneurs providing products or services, their main goal is to maximize profit. If there is only one seller among a large number of buyers, accomplishing such objective would not be challenging. However, contemporary economy is extremely competitive with numerous players involved. This leads to the preoccupation with efficiency, productivity and innovation.

The dictionary definition of productivity is the ratio of output to the input. In the market, this measure is an imperative index that shows the company's high or low performance, and even success or failure. Therefore, corporations endeavor to increase the numbers such as Net Income, ROI (Return on Investment) and other profit ratios, usually by reducing the input – expense, in other words. Such economic cost-benefit centered predisposition inevitably led the private sector to overlook other aspects such as the social and environmental effects and responsibility of businesses.

## **2. Social Responsibility Sector**

Generally, two different sectors have been accountable for social responsibility; the public sector or the government, and the voluntary or non-profit sector.

According to the public-finance theory, government has two major functions<sup>4</sup>: i) to provide public goods such as education and national security, and ii) to address inequalities that resulted from markets through redistribution. Although a large group of scholars following liberalism, including the eminent Adam Smith, has argued for the existence and power of ‘the invisible

---

<sup>4</sup> Andrew M. Wolk, “Social Entrepreneurship & Government,” *Small Business Economy: A Report to the President* (2007): 10-11.

hand' and for limited government, the two roles are becoming more important as 'market failure' seems to be evident. To rephrase, the private sector is reluctant to take on the responsibility of providing public goods such as education, healthcare and electricity since they are at variance with efficiency; the necessary cost for the operation is much more than what the private sector is willing to invest. Therefore, social services are imposed upon the government's shoulder.

Nevertheless, since the public sector is involved in countless areas of society and is responsible for satisfying the need of all citizens, it is confronted with challenges in making a consensus and allocating resources for resolution. Hence, it goes in pursuit of partnerships and support of citizens, who often form non-profit or voluntary organizations to endorse their social values<sup>5</sup>. In the second division of this sector – referred to as the third sector, – the main players are religious organizations, civic groups, neighborhood associations, charities and other non-profit organizations that deal with critical social matters. Although individuals struggle to get the issue across to the public and to actually solve the problems, their substantial impact is minimal due to the lack of ability to sustain or expand their initiatives further to a larger stage.

This is, in large part, due to the fact that NGOs and non-profit organizations are financially dependent on donors and funding from other organizations<sup>6</sup>. They tend to accommodate their activities to suit the expectations of donors, incurring inflexibility and lack of responsiveness to social problems. Therefore, the need for the third sector to gain economic independence and efficiency arose.

---

<sup>5</sup> Andrew M. Wolk, "Social Entrepreneurship & Government," *Small Business Economy: A Report to the President (2007)*: 12.

<sup>6</sup> Jiyoung Kang, "Understanding non-governmental organizations in community development: Strengths, limitations and suggestions," *International Social Work* 54-2 (2010): 228

### **III. Process of Convergence**

As such, the two spheres have been distinctively separated, functioning independently according to their own values and expected roles. However, they have been undergoing a process of convergence, leading to a blur of the boundary.

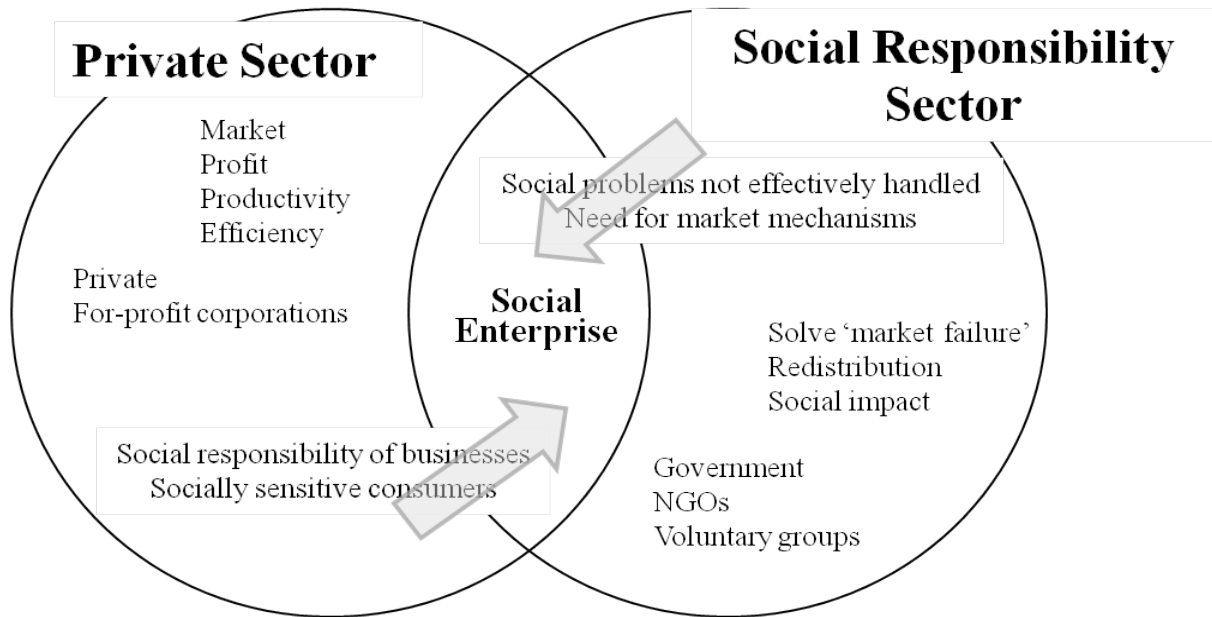
Starting from the late 1970s, global economy began to take a downturn and to exhibit serious social problems which were impetus for most countries, especially those in Europe, to revisiting their business activities, welfare system and other policies regarding the labor market<sup>7</sup>. Economic stagnation led to increased unemployment rate which forced the government to enlarge welfare expenditures. However, governmental support was limited to unemployment benefits and similar measures which did not have any practical influence on resolution. In other words, the business sector was overly obsessed with economical gain to consider the negative by-products while the social responsibility sector – the government and the third sector – was showing inefficiency and even failure in tackling social issues.

Consequently, two contradictory, yet desperate voices rose to the forefront; a call for applying market mechanisms and business-based approach in addressing social needs and a request for business ethics and socially responsible economic activities.

---

<sup>7</sup> Man Hee Rhu, “A Study on the Characteristic and Development Strategy of Social Enterprise in Korea,” *Situation and Welfare* 31 (2011): 166.

**Figure 1. The convergence of the private and social responsibility sector<sup>8</sup>**



In fact, the social responsibility sector has been impacted by the demand for efficiency and market-orientation. One of the most conspicuous cases reflecting this trend is the UK's attempt to reform the public sector according to 'John Lewis style'<sup>9</sup>. Under such change, public services are open to charities, community groups and private companies, fostering competition and providing a large range of choices for customers. Employees of the institutions providing various services such as education and healthcare are granted with partial ownership, thus sharing profits and exercising certain rights, just like any shareholder of a private company<sup>10</sup>. Consequently, employees would be motivated to increase the value of the organization. In other words, the concepts of competition and financial incentive are being utilized to enhance

<sup>8</sup> Andrew M. Wolk, "Social Entrepreneurship & Government," Small Business Economy: A Report to the President (2007) (reorganized)

<sup>9</sup> James Kirkup, "John Lewis-style public services to break state monopoly," The Telegraph, July 11, 2011. <http://www.telegraph.co.uk/news/politics/8629350/John-Lewis-style-public-services-to-break-state-monopoly.html>

<sup>10</sup> Patrick Kingsley, "What exactly is the 'John Lewis Model'?" The Guardian, February 22, 2012. <http://www.guardian.co.uk/education/shortcuts/2012/feb/22/what-is-john-lewis-model>



productivity in the social responsibility sector.

Similarly in the private sector, corporations are engaged in areas such as education, healthcare and other social services that were traditionally deemed as the primary domain of which the social responsibility sector is in charge. More surprisingly, cure for lethal medical conditions such as AIDS, unemployment issues and providing care for the economically disadvantaged are frequently dealt with by profit organizations in the name of corporate social responsibility. From a more recent and ultimate perspective on the converging procedure, a new form of organization, Social Enterprise, has appeared.

## **1. Corporate Social Responsibility**

The first stage - or the intermediate manifestation – of the convergence is Corporate Social Responsibility (CSR). This refers to the notion of corporations committing themselves to a variety of activities with the intention to benefit society.

### *Approaches*

The ideology of CSR is not a new concept, as its history stretches back to the 1950s at the least, based on the assumption of the obligation of business to society. The main idea was that, business was an instrument of society for maintaining a balance among competing demands of different players in the economy, stakeholders, customers and communities<sup>11</sup>. Thus, the reason for its existence per se connotes the innate social responsibility of corporations.

Another approach viewed CSR as an instrument, not of the society but of the companies to meet their social responsibilities without sacrificing profit-oriented activities. The most

---

<sup>11</sup> Subharbrata B. Banerjee, Corporate Social Responsibility (Edward Elgar, 2007).

common and conventional thinking viewed CSR as mere philanthropy such as monetary donations and aid offered to people in need. However, in the 1990s, such perspective underwent a shift toward a more productive and active approach in which organizations incorporate CSR directly into the business strategy. For instance, as one of the most well-known coffee shops, Starbucks aspires to providing coffee of the highest quality and to maintaining its brand value. In order to effectively accomplish such strategic objectives, Starbucks has been striving to be socially responsible by purchasing Fairtrade coffee since 2000<sup>12</sup>. Just like this, a myriad of companies integrate CSR straight into their operating processes from inbound logistics (input) to outbound logistics (output). Along with such corporations in which the content of CSR and the main business have commonalities ('coffee' in the previous example), there are other cases where the two do not necessarily show similarity (Reference *Case A: SK Happy School*).

The most up-to-date approach toward CSR is Creating Shared Value (CSV)<sup>13</sup>, which was first proposed by Michael Porter and Kramer. CSV, which is deemed as the intermediate concept between CSR and social entrepreneurship, focuses on identifying and expanding the connections between societal and economic progress. A business needs a healthy, educated workforce, sustainable resources and capable government to compete effectively. At the same time, society requires profitable businesses to create income, wealth and stable economy<sup>14</sup>. Therefore, Shared Value is not just social responsibility or philanthropy but a new path to achieving economic success by redefining the values, terms and notions of conventional capitalism such as products, productivity and even the market as a whole. In other words, socially responsible way of operation leads to higher profit in the long-run, unlike the traditional

---

<sup>12</sup> Starbucks. "Responsibly grown coffee." <http://www.starbucks.com/responsibility/sourcing/coffee>

<sup>13</sup> Michael Porter and Mark Kramer, "Creating Shared Value." *Harvard Business Review* 89-1/2 (2011).

<sup>14</sup> Wikipedia. "Corporate Social Responsibility." Last modified June 5, 2012.  
[http://en.wikipedia.org/wiki/Corporate\\_social\\_responsibility](http://en.wikipedia.org/wiki/Corporate_social_responsibility)

view of trade-off between economic efficiency and social impact. To illustrate, Wal-Mart's decision in reducing its packaging and cutting 100 million miles from its delivery routes, it was able to not only lower carbon emissions but also save 200 million dollars<sup>15</sup>.

Since every single part of business operation, from the input stage to distribution and after-service, is tremendously affected by societal factors, companies inevitably engage in identifying sources of negative effect and in devising innovative solutions. In this process, CSR initiatives are undertaken to benefit both corporations themselves and society in which their survival is at stake.

*Case A: SK Happy School*<sup>16</sup>

SK Happy School is a CSR program that SK Group has been conducting since 2008 in which less privileged students are granted with the opportunity to get education of their interest. The purpose of Happy School is to help teenagers or young 20s to be socially and economically independent through general education – of humanities, economics, IT, leadership and arts – and practical training. They are also offered internship positions for firsthand experience in the field and for networking. There are three schools; Cooking School, Musical School and Car School.

---

<sup>15</sup> Michael Porter and Mark Kramer, "Creating Shared Value." Harvard Business Review 89-1/2 (2011): 69.

<sup>16</sup> SK Happy School. <http://skhappyschool.com/happyschool/main.html>

**Figure 2. The three different schools of SK Happy School<sup>17</sup>**

	<b>Cooking School</b>	<b>Musical School</b>	<b>Car School</b>
<b>Period</b>	1 year (March ~ February)		
<b>Subjects</b>	18~24 year-old underprivileged individuals		
	25~30 people	20 people	25~30 people
<b>Contents</b>	<ul style="list-style-type: none"> <li>- Cooking theories, nutritional sciences</li> <li>- Actual practice: restaurant food, Korean traditional food</li> <li>- Operating restaurant business</li> <li>- Internship</li> </ul>	<ul style="list-style-type: none"> <li>- Education and training: acting, singing, moving on stage, reading novels and play scripts, history of musical, musical industry</li> <li>- Evaluation: mid-term/final stage performance, audition</li> </ul>	<ul style="list-style-type: none"> <li>- Car maintenance skills</li> <li>- Two separate classes               <ul style="list-style-type: none"> <li>(1) Car System Maintenance</li> <li>(2) Car Painting Maintenance</li> </ul> </li> <li>- Prepare for official certificates and qualifications</li> <li>- Internship</li> </ul>

All school curriculums are planned and implemented under the supervision and through the participation of experts and people working in the most relevant domains. SK's main role is funding for the expenses, creating the platform to connect teachers and professionals to needy students and sustaining the school system.

Although cooking, musical and car maintenance are not directly associated with SK's diverse business expertise, such CSR activities are effective in developing positive brand image and conveying the sense of being socially responsible to its customers. In terms of social influence, teenagers or young 20s who were initially hopeless and neglected from the mainstream have become competent in the three distinctive fields, allowing them to be

<sup>17</sup> SK Happy School. <http://skhappyschool.com/happyschool/main.html>

independent and the positive impact continues to be substantial, especially in the long-run.

## **2. Social Enterprise**

Although CSR is a more prevalent form of the overlap between business and social responsibility, it is imperfect as companies are motivated by the belief that their participation would lead to higher profit, not by the social objectives per se. Therefore, a more complete convergence, resulting in a conspicuous ‘blur’ of the boundary, is Social Enterprise.

Even though there still remains heated dispute over the exact definition of ‘Social Enterprise,’ according to the UK Department of Trade and Industry (DTI), it is ‘a business with primarily social objectives whose surpluses are principally reinvested for that (social) purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.’<sup>18</sup> Thus, the double or triple bottom-line paradigm maintaining an acceptable balance of economic, social and possibly environmental returns is the primary characteristic with which social enterprises are differentiated from other organizations.

## **IV. Social Enterprise in Korea**

### **1. Current State**

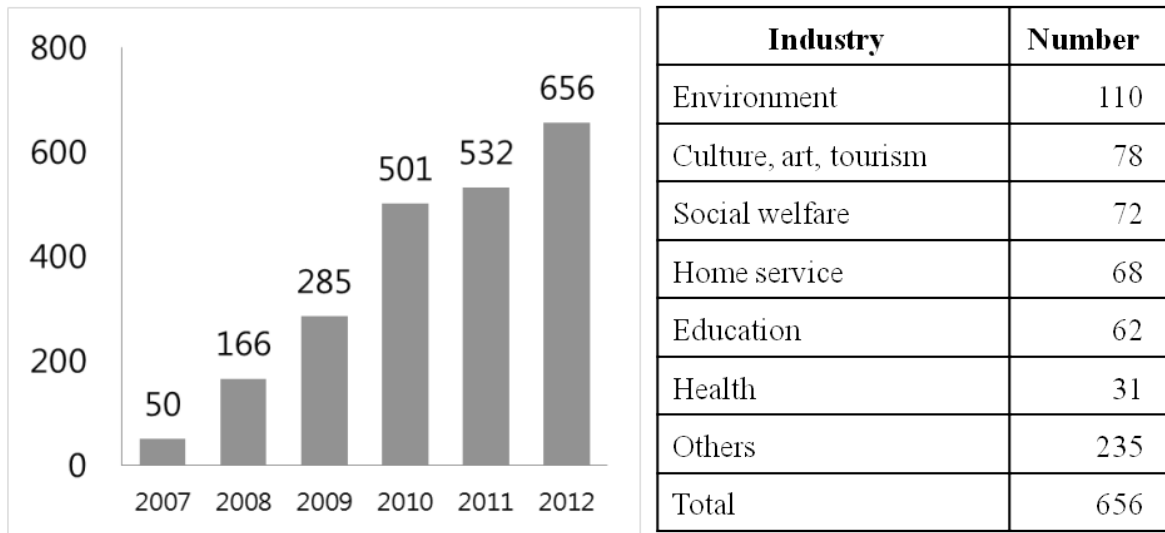
In Korea, triggered by the enactment of the Law of Social Enterprise Development in 2007, social enterprise has ceaselessly received spotlight and the number has increased from 50 in 2007 to more than ten times, 656 in June 2012. Social enterprises are operating in diverse

---

<sup>18</sup> Declan Jones and William Keogh, “Social Enterprise: A case of terminological ambiguity and complexity,” *Social Enterprise Journal* 2-1 (2006): 18.

domains ranging from education to culture and arts (**Figure 3**). Social enterprises are classified into five types depending on the main social purpose of existence; providing employment, providing social services, being responsible for offering both employment and social services (combination of the first two cases), others,<sup>19</sup> and making contributions to the community in improving the quality of life (newly added in 2011).

**Figure 3. The number of Korean social enterprises and industries in which they operate<sup>20</sup>**



The primary drive for the emergence of social enterprise in Korea is similar to that of European welfare states; demand for changes in the original labor system due to unstable economic conditions, and for effective measures concerning social services and problems. Such fluctuations had significant implications on general welfare and resolution for unemployment in

<sup>19</sup> Hyundai Research Institute, “5 Tasks for the Vitalization of Social Enterprise,” (2009): 8.

<sup>20</sup> Korea Social Enterprise Promotion Agency, “Information on Social Enterprise.” <http://www.socialenterprise.or.kr/kosea/info.do> (reorganized)

this country, particularly in the late 1990s in conjunction with the financial crisis. Influenced by such a unique historical incident, Korean social enterprises are relatively more focused on creating jobs for the underprivileged<sup>21</sup>. This is demonstrated by the fact that social enterprises which provide employment accounts for 44%.<sup>22</sup>

Despite the rising interest in social enterprises, its history in Korea is short in comparison with the European countries or the USA. In order to nurture a favorable environment for the growth of social enterprises without matured or passionate civic support, the government has been taking top-down approach, with the passage of the Law of Social Enterprise Development as the initiative step.

The *Law of Social Enterprise Development*<sup>23</sup> was officially enacted in 2007, certifying 36 social enterprises. The first clause explicitly states that ‘the purpose of the legislature is to contribute to social unification and enhanced quality of life for citizens, by reinforcing the current social service system and creating job opportunities, fundamentally through supporting social enterprises.’ The articles define social enterprise (clause 2), specify the roles of different players involved including the governmental organization, Korea Social Enterprise Promotion Agency (clause 3-5), and elucidate the process of certification (clause 7- 9) and ensued benefits (clause 10-16). This demonstrates that the main structure of government support is centered on certification, managed by Korea Social Enterprise Promotion Agency.

*Korea Social Enterprise Promotion Agency* is a governmental organization, which was established in 2010, aided by the Ministry of Employment and Labor, and the Ministry of

---

<sup>21</sup> Wonbong Jang, “The Actual Conditions and Prospects of Social Enterprise in Korea,” *Trend and Prospect* 75 (2009): 52.

<sup>22</sup> Hyundai Research Institute, “5 Tasks for the Vitalization of Social Enterprise,” (2009): 8.

<sup>23</sup> The Law of Social Enterprise Development. Last modified in April 15, 2012.  
<http://www.law.go.kr/lsSc.do?menuId=0&p1=&query=%EC%82%AC%ED%9A%8C%EC%A0%81%EA%B8%B0%EC%97%85&x=0&y=0#liBgcolor0>

Strategy and Finance. The legal basis for its existence lies in the Clause 20 of the Law of Social Enterprise Development, which was added in June, 2010. As the self-explanatory name indicates, the overarching goal of the agency is to effectively promote social enterprise. More specifically, it discovers and endorses innovative business models of social enterprise, provide software for social enterprises such as business consulting and training, encourages pro bono activities, promote regional government support for social enterprises, pursue collaborations with private companies, NGOs and other organizations, conduct periodic investigation and evaluation sessions on social enterprises, and it is in charge of social enterprise certification.

Social enterprises can be legitimate only when they attain the authorized title through the *certification* process. Entities must satisfy certain qualifications regarding their organizational structure, employees, social purposes, figures on profit and re-investment (**Figure 4**).

**Figure 4. The required qualifications of social enterprises for certification**<sup>24</sup>

<b>Qualifications</b>	<b>Details</b>	<b>Clause (Law)</b>
Organizational structure	- Legally approved as a legal entity, association, non-profit organization	8
Employment	- Must have employees who are paid, participating in production and sales activities	8
Realization of social purposes	- Must fall in any of the four categories of social enterprise 1) Providing employment: over 50% of employees must be the underprivileged sector of society 2) Providing social services: over 50% of consumers must be the underprivileged sector of society 3) Combination of 1) and 2)	8

<sup>24</sup> Wonbong Jang, "The Actual Conditions and Prospects of Social Enterprise in Korea," *Trend and Prospect* 75 (2009): 54.



	4) Others: social purposes must be assessed by the committee and the minister of the Ministry of Labor	
Participation of related authorities in decision making	- Must have a decision making structure in which customers, employees and other related authorities are involved	8
Profit from business	- Including the month of requesting certification, the profit of the most recent 6 months must be over 30% of the labor cost	8
Documentation	- Mission, objectives, core business activities, decision making process, the fact that 2/3 of profit is utilized for social purposes must be formally documented	8, 9
Re-investing the profit for social purposes	- In each fiscal year, if profit is generated, over 2/3 must be used for social purposes	8

After the certification, social enterprises are officially provided with various privileges. In monetary terms, they receive labor and equipment expense, insurance expenses, and tax incentives. Not only that but also, business administration assistance concerning human resources, management skills in general and consulting (**Figure 5**).

**Figure 5. The support provided for certified social enterprises<sup>25</sup>**

<b>Criteria</b>	<b>Details</b>	<b>Clause (Law)</b>
Management and training for HR	- Support management, accounting, technological support with professional knowledge - Provide training and education programs for social entrepreneurship	10
Equipment/Infrastructure expense	- Financially support social enterprises regarding purchase of equipment, land/site	11

<sup>25</sup> Law Information Center. "The Law of Social Enterprise Development."  
<http://www.law.go.kr/lsSc.do?menuId=0&p1=&query=%EC%82%AC%ED%9A%8C%EC%A0%81%EA%B8%B0%EC%97%85&x=0&y=0>

	- Lend resources of state ownership	
Purchase by public institutions	- Promote purchase of goods and services produced by social enterprises to public institutions	12
Tax incentives, social insurance expense	- Tax reduction is provided to social enterprises - Support social enterprises for diverse insurance costs	13
Financial support for social service providing social enterprises	- Through open investigation, offer labor expense, operation and consulting expense to qualified social enterprises that specialize in certain social services	14
Tax incentives for collaborating enterprises	- Provide tax incentives to companies or other organizations that collaborate with social enterprises	16

**2. Problems**

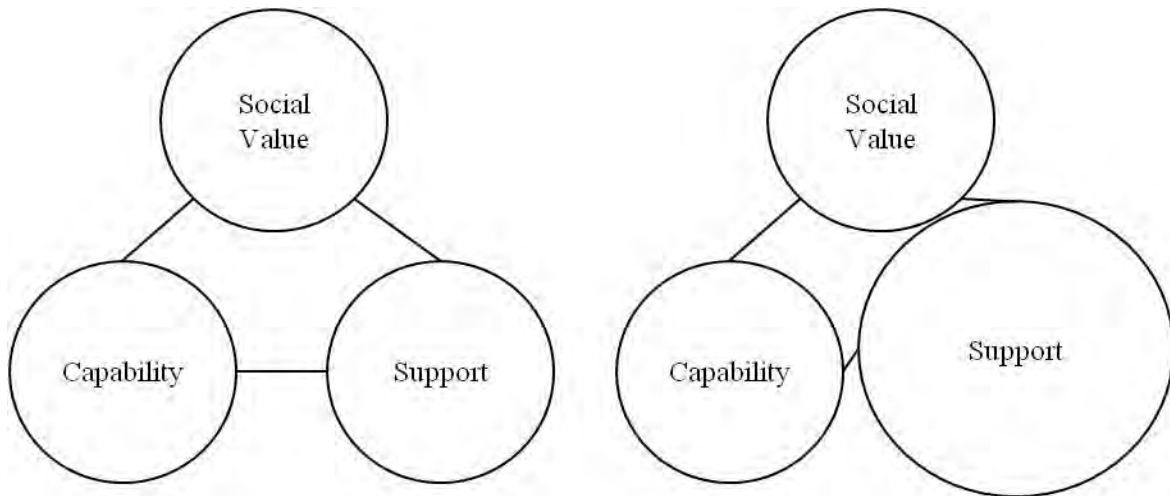
The convergence of the private and social responsibility sectors has been considered as a potentially promising solution to social challenges. Nonetheless, social enterprises have faced obstacles that hinder effective operation. They stem from the inherent fact that social enterprises must maintain the equilibrium between social purposes and profit generation which are conventionally thought to be the two extremes of a single continuum in business. Therefore, additional support from the government and other organizations or individuals has been required in assisting social enterprises to meet multiple bottom lines. In fact, according to Professor Dutch Leonard, for the success of social enterprise, three elements, social value, business capability and support, must be congruent<sup>26</sup>.

However, in Korea, government policies that had been purposely designed to support social enterprises in gaining the congruence, are exhibiting critical shortcomings, leading to serious repercussions that are contradictory to the initial expectation.

---

<sup>26</sup> Il Ryu, "Sustainable Development Strategy of Local Social Enterprise based on the Cases of Jeju Province," Regional Development Research 11(2002): 2. p. 173

**Figure 6. Imbalance among 3 factors leading to success of social enterprises<sup>27</sup>**



*Too much reliance on the government*

According to a survey (Jang, 2009), the most crucial problem for social enterprises is financial instability, accounting for 60.9%<sup>28</sup>. Scholars and experts have also expressed their skepticism on the financial capability of social enterprises in terms of both the initial investment and sustainability.

The major sources of capital for social enterprises are subsidies from the government and support from private corporations, private organizations and individual investors. Since they are ‘enterprises,’ being managed based on market orientation, the majority (66.5%) of financing does derive from their profit<sup>29</sup>. Nevertheless, governmental subsidies account for 26.7% of the total capital structure, which implies relatively high dependency on the public sector. Their

<sup>27</sup> Hyundai Research Institute, “5 Tasks for the Vitalization of Social Enterprise,” Report (2009): 9.

<sup>28</sup> Wonbong Jang, “The Actual Conditions and Prospects of Social Enterprise in Korea,” Trend and Prospect 75 (2009): 63.

<sup>29</sup> Wonbong Jang, “The Actual Conditions and Prospects of Social Enterprise in Korea,” Trend and Prospect 75 (2009): 58.

inability to be self-sufficient can be attributed to the characteristics of government support and the situation in which financial sources are not diversified.

The benefits provided to certified social enterprises are focused on direct, monetary support. The major form of aid is through financing labor cost for each employee with the amount of 788,000 Korean Won<sup>30</sup>, for two years at the most. Consequently, if a social enterprise fails to be financially independent after two years, such monetary support no longer has any significance more than unemployment benefits. Although such monetary aid is necessary for social enterprises, it is a myopic approach which leads to indolence and hinders independent operation.

#### *Lack of motivation for further development*

Even though the initial purpose of procuring legal grounds and introducing political tools – especially the certification system – was to nurture a friendly environment for the development of social enterprises, the certification process has major flaws in that long-term management after certification is not systemized and that all support is identically offered to social enterprises.

According to the Law of Social Enterprise Development, clause 17 demands social enterprises to report on their performance, clause 18 mentions the cancellation of certification and clause 21 is related to the penalty that results from fraudulent qualifications. Nevertheless, detailed description on the process of reporting is absent and specific standards for the cancellation are not documented, leading to the absence of a systematic monitoring after the

---

<sup>30</sup> Myungsuk Lee, Jae-Hyun Bae and Se-Jin Yang, “Government’s Role in Collaborative Governance: With Emphasis on the Case of Korean Social Enterprises,” *Journal of the Korean Political Science Association* 18-4 (2009): 157.

certification<sup>31</sup>. Thus, the only endeavor for social enterprises would be to satisfy the required qualifications for a ‘single’ occasion of certification. As they are no longer subject to strict evaluation and enjoy unconditional government support, social enterprises are not driven to seek for further advancement. To make the situation worse, since certification enables all social enterprises to receive similar benefits from the government, there is no need for rivalry or differentiation.

*Shortage in human resources, both quantity and quality-wise*

Referencing to the aforementioned survey by Jang, the low quality of human resources (15.2%) was the second most pivotal constraints to successful operation, after lack of financial resources (60.9%)<sup>32</sup>. Although there are political mechanisms designed to provide and cultivate social entrepreneurs, there are limitations.

Under the supervision of Korea Social Enterprise Promotion Agency, academies are being held by 8 organizations, two in Seoul and one in each province of Korea<sup>33</sup>. Because the number of institutions responsible for education is minimal, training is insufficient to satisfy the demand. For instance, operations management related classes are accessible only in 4 organizations. Another problem is the difficulty in attracting and employing teachers who have been professionally educated on social entrepreneurship.

Additionally, the allocated hours for particular areas such as corporate finance, human resource and organizational management are in short compared to the recommended hours set

---

<sup>31</sup> SoonYang Kim, “Reframing the Governmental Support System for Social Enterprises,” Korea Social Policy Review 17-2 (2010): 211.

<sup>32</sup> Wonbong Jang, “The Actual Conditions and Prospects of Social Enterprise in Korea,” Trend and Prospect 75 (2009): 63.

<sup>33</sup> Korea Social Enterprise Promotion Agency, “Social Entrepreneurship – Academy.” [http://www.socialenterprise.or.kr/foundation/training\\_academy1.do](http://www.socialenterprise.or.kr/foundation/training_academy1.do)

by the Ministry of Employment and Labor<sup>34</sup>. According to a study conducted by Korea Social Enterprise Promotion Agency, the top 3 dissatisfied criterion regarding the contents were lack of practicality (16.3%), redundancy (13.3%) and lack of professionalism (11.2%)<sup>35</sup>.

### **3. Suggestion**

In order to alleviate the negative effects of problems identified above, the following solutions, based on existing benchmarks, may be effective.

#### *Revising the certification policy*

There are two aspects of the certification process that must be modified; post-certification management and the support provided to certified social enterprises. In the case of the former, a long-term evaluation process after the certification must be politically systematized. Since frequent monitoring procedures may overload the operation of employment centers and regional governments<sup>36</sup>, a separate department or even an independent governmental institution should be introduced. This would allow related personnel to concentrate on a single task, increasing the efficiency. The results of the evaluation must be open to all social enterprises and government support must be provided accordingly. If a certain social enterprise fails to meet the standards, it must be subject to warnings, reduction in monetary support, inaccessibility to other aids and in extreme cases, disqualification. This would stimulate social enterprises to continuously develop themselves to maintain their status as ‘certified’.

---

<sup>34</sup> Hak-Sil Kim, “Research of Improving Training Courses for Social Entrepreneur Academy: Focusing Analysis of AHP,” National Policy Studies 25-1 (2009): 57.

<sup>35</sup> Hak-Sil Kim, “Research of Improving Training Courses for Social Entrepreneur Academy: Focusing Analysis of AHP,” National Policy Studies 25-1 (2009): 57.

<sup>36</sup> SoonYang Kim, “Reframing the Governmental Support System for Social Enterprises,” Korea Social Policy Review 17-2 (2010): 221.

The latter is concerned with putting more emphasis on indirect and intangible support. For social enterprises to be self-sufficient in the long run, their business models must be concrete with marketable products or services while internal management of the organization should be professionally conducted. Therefore, the government should not only offer human resource training and technical assistance but also be the intermediary in forming a network among social enterprises, consultants and other experts germane to consolidating the business capability.

*Diversify the financial sources, utilizing CSR: ‘Enterprise Enablers’*

‘Enterprise Enablers’ can be defined as people who contribute to establishing an enterprise or launch a business by helping entrepreneurs financially. The most representative example is Muhammad Yunus<sup>37</sup>, who opened the Grameen Bank<sup>38</sup> in 1983, a microfinance organization and community development bank in Bangladesh. The Grameen Bank offers small loans (microcredit) without any collateral but taking advantage of peer-pressure, to groups of impoverished individuals striving to run a business. As a result, those who do not have the access to necessary amount of capital can easily receive help and get motivated to pay back.

Another Enterprise Enabler, who has been remarkably influential in social entrepreneurship, is Bill Drayton<sup>39</sup>, the founder of Ashoka: Innovation for the Public. Ashoka was founded in 1981 and it is a non-profit organization that finds and supports social entrepreneurs through social venture capital.

---

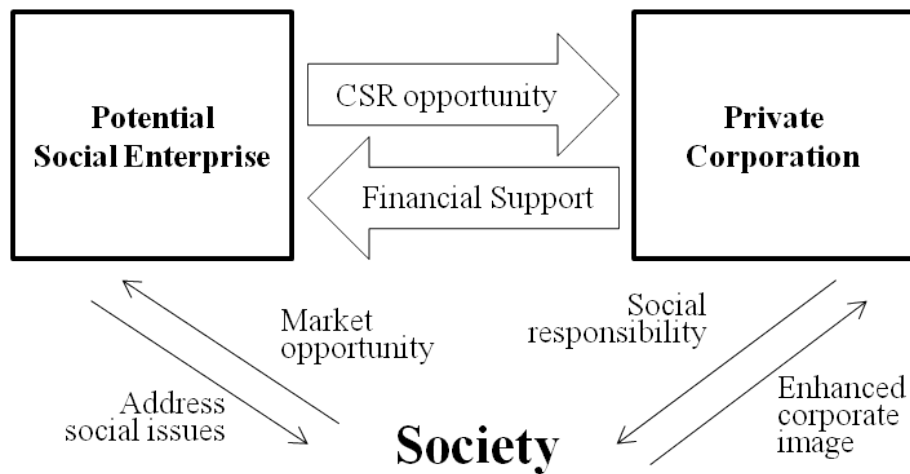
<sup>37</sup> John L. Thompson, “Social enterprise and social entrepreneurship: where have we reached?” *Social Enterprise Journal* 4-2 (2008): 159.

<sup>38</sup> Wikipedia. “Muhammad Yunus.” Last modified June 5, 2012. [http://en.wikipedia.org/wiki/Grameen\\_Bank](http://en.wikipedia.org/wiki/Grameen_Bank)

<sup>39</sup> John L. Thompson, “Social enterprise and social entrepreneurship: where have we reached?” *Social Enterprise Journal* 4-2 (2008): 150.

Both the Grameen Bank and Ashoka foundation are non-profit oriented, which are specially designed to assist those who are in need from the beginning of establishment. Although former is financially aided by the Bangladesh government and the latter by a large number of partners and supporters, such model may not be sustainable as they do not engage in profit-generating activities themselves. Therefore, private corporations, which are financially self-sufficient through their own business operation, are more appropriate in taking the role of Enterprise Enablers in Korea.

**Figure 7. The structure of ‘Corporate Enterprise Enabler’**



**Figure 7** shows how the proposed suggestion of corporate Enterprise Enabler would be structured. In order to attract private companies, Enterprise Enabler must be considered as ‘CSR’, with which they can meet their social responsibility demands and enhance their brand image, ultimately leading to attracting more customers.

From the potential social enterprise’s stance, it would be able to be equipped with required financial resources. As a result, it would be provided with the opportunity to address social problems within the market-oriented business environment. All these procedures would



eventually be conducive to the whole society.

There are existing cases in Korea<sup>40</sup> in which private companies have been involved in establishing social enterprises. POSCO directly founded a social enterprise, POS Eco Housing and Hyundai-Kia Motors made a partnership with a non-profit organization, Seniors Citizens Welfare, to make 'Ansim Life', which works for the elders. Also, SK Energy invested in the formation of 'Mezzanine I-Pack', a social enterprise that incubates North Korean defectors, with Yeolmae-Nanum Foundation. These archetypes indicate the potential for further expansion of the interdependent relationship between social enterprises and private corporations.

#### *An objective evaluation standard for social enterprise: Benchmarking GIIRS*

When individuals determine which for-profit company to invest in, they often refer to official figures and indices that indicate the value or creditability of particular corporations. Archetypes include Morningstar investment rankings and S&P credit risk ratings in the USA. In Korea, there is an authorized creditability rating done by Korea Investors Service (KIS). These standards allow potential investors to compare different options and to finally conclude on the most attractive one.

Regarding social enterprises, on the other hand, a formal evaluation standard does not exist in Korea. Although there may be several reasons for the absence, the primary factor would be the innate difficulty of measuring their performance in relation to the social impact. However, for investors to be motivated, they must be informed of the internal conditions of the organization, financial gains and social changes that resulted from its business. Based on these

---

<sup>40</sup> Korea Social Enterprise Promotion Agency, "Support for Social Enterprise Establishment," [http://www.socialenterprise.or.kr/supporters/organ\\_found.do](http://www.socialenterprise.or.kr/supporters/organ_found.do)

data, they can confidently make decisions. Therefore, open source of information and official criterion must be formulated.

In the USA, an attempt has been made to facilitate the development of generally accepted standards for assessing the social and environmental impact of companies and investment funds by the Global Impact Investing Rating System (GIIRS<sup>41</sup>). GIIRS is a nonprofit subsidiary of B Lab – a non-profit organization that certifies companies, which uses the power of business to solve social and environmental problems, as ‘B Corporation’<sup>42</sup> – and it provides a legitimate rating. The distinguishable hallmark of GIIRS rating is the fact that it does not consider financial performance but only takes social and environmental impact into account.

Benchmarking the GIIRS rating, social enterprises in Korea should be appraised by the third party in order to offer an objective set of judging criterion to investors who pursue socially responsible investing. This would be another significant source of financial stability for social enterprises.

Not only that but also, introduction of an objective yardstick may stimulate competition among social enterprises. When they begin to be assessed and be compared with other competitors, they would be highly motivated to improve themselves in terms of both financial and social condition, and to attain uniqueness that grabs the attention of customers and investors. The quote by Antony Bugg-Levine, the managing director at the Rockefeller Foundation, “A standard with a rating system can help hold the line on social impact and differentiate those who are truly making a difference from those who are simply telling a story,” overtly demonstrates the potency of an official standard.

---

<sup>41</sup> Christopher Marquis, Andrew Klaber and Bobbi Thomason, “B Lab: Building a New Sector of the Economy,” Harvard Business School (2011).

<sup>42</sup> B Corps. “What is a B Corp?” <http://www.bcorporation.net/about>

*Penetrate into the education sector to acquire professionalism*

The three major weaknesses of the social entrepreneurship education were lack of professionalism and practicality, and redundancy in contents. The obvious measures would be to improve the current academies by increasing the number of organizations, teachers and relevant courses. However, there are alternatives in which universities and professional institutions get involved.

Recently in May 2012, SK group and KAIST (Korea Advanced Institute of Science and Technology) signed MOU to open an official MBA course on social entrepreneurship<sup>43</sup>, which begins in February 2013. This is the first MBA program on social entrepreneurship in Korea. Starting with KAIST, other universities should partake in organizing proficient curriculums.

Social entrepreneurship training should be offered not only to MBA students, but also to undergraduates. Students in Free Enterprise (SIFE) is an international non-profit organization that works with leaders in business and professors to mobilize university students to make a difference in their communities while developing the skills to become socially responsible business leaders<sup>44</sup>. Students are engaged in certain projects that aim to help underprivileged people to become self-independent by utilizing business concepts and skills, rather than through donation or volunteering. Thus, they are granted with opportunities to practically apply theories and accumulated book-knowledge to the real-world business setting. Consequently, they become aware of not only the serious problems being addressed but also the current environment in Korea surrounding social enterprises or non-profit organizations with related

---

<sup>43</sup> Naver News, “SK, 카이스트와 손잡고 ‘사회적기업가’ 키운다,”

<http://news.naver.com/main/read.nhn?mode=LSD&mid=sec&sid1=101&oid=013&aid=0002060285>

<sup>44</sup> SIFE. “About SIFE: Overview.” <http://www.sife.org/aboutsife/Pages/Overview.aspx>

values and goals. Taking SIFE as the stepping stone, social entrepreneurship education should be carried out for individuals early in their career path, both in and out of the boundary of classrooms.

## **V. Conclusion**

Social enterprise is not only a mere bridge that connects the business and social responsibility sectors, but also the form of organization that would ultimately overcome the limitations of each sector. Considering such potential and the implications it provides to current capitalistic society, social enterprise must be promoted and scaled to a larger scope.

However, as novel concepts always do in the premature phase, social enterprise is undergoing difficulty particularly in terms of financial stability and human resources. These problems stem from the intrinsic nature of social enterprise that it has to balance two seemingly contradicting objectives; high social and economic outcome. Therefore, suggested solutions must be viable within the distinct environment.

First, in order to diversify and secure stable sources of capital, corporations should be 'Enterprise Enablers' and fund social enterprises as a CSR activity. Second, authorized evaluation system should be established to motivate potential investors and to foster competition among social enterprises. Lastly, to surmount the shortage of human resources, educational programs suitable for students early in their career. With such efforts, the capability of social enterprise to be the primary player in this dynamically changing society would definitely be strengthened.

## Reference

- Andrew M. Wolk, "Social Entrepreneurship & Government," Small Business Economy: A Report to the President (2007).
- Christopher Marquis, Andrew Klaber and Bobbi Thomason, "B Lab: Building a New Sector of the Economy," Harvard Business School (2011).
- Declan Jones and William Keogh, "Social Enterprise: A case of terminological ambiguity and complexity," Social Enterprise Journal 2-1 (2006).
- Hak-Sil Kim, "Research of Improving Training Courses for Social Entrepreneur Academy: Focusing Analysis of AHP," National Policy Studies 25-1 (2009).
- Hyundai Research Institute, "5 Tasks for the Vitalization of Social Enterprise," Report (2009).
- Il Ryu, "Sustainable Development Strategy of Local Social Enterprise based on the Cases of Jeju Province," Regional Development Research 11 (2002).
- Jiyoung Kang, "Understanding non-governmental organizations in community development: Strengths, limitations and suggestions," International Social Work 54-2 (2010).
- John L. Thompson, "Social enterprise and social entrepreneurship: where have we reached?" Social Enterprise Journal 4-2 (2008).
- Man Hee Rhu, "A Study on the Characteristic and Development Strategy of Social Enterprise in Korea," Situation and Welfare 31 (2011).
- Michael Porter and Mark Kramer, "Creating Shared Value." Harvard Business Review 89-1/2 (2011).
- Myungsuk Lee, Jae-Hyun Bae and Se-Jin Yang, "Government's Role in Collaborative Governance: With Emphasis on the Case of Korean Social Enterprises," Journal of the Korean Political Science Association 18-4 (2009).
- SoonYang Kim, "Reframing the Governmental Support System for Social Enterprises," Korea Social Policy Review 17-2 (2010).

Subharbrata B. Banerjee, Corporate Social Responsibility (Edward Elgar, 2007).

Wonbong Jang, “The Actual Conditions and Prospects of Social Enterprise in Korea,” Trend and Prospect 75 (2009).

B Corps. “What is a B Corp?” <http://www.bcorporation.net/about>

James Kirkup, “John Lewis-style public services to break state monopoly,” The Telegraph, July 11, 2011. <http://www.telegraph.co.uk/news/politics/8629350/John-Lewis-style-public-services-to-break-state-monopoly.html>

Korea Social Enterprise Promotion Agency, “Information on Social Enterprise.” <http://www.socialenterprise.or.kr/kosea/info.do>

Korea Social Enterprise Promotion Agency, “Social Entrepreneurship – Academy.” [http://www.socialenterprise.or.kr/foundation/training\\_academy1.do](http://www.socialenterprise.or.kr/foundation/training_academy1.do)

Korea Social Enterprise Promotion Agency, “Support for Social Enterprise Establishment,” [http://www.socialenterprise.or.kr/supporters/organ\\_found.do](http://www.socialenterprise.or.kr/supporters/organ_found.do)

Naver News, “SK, 카이스트와 손잡고 ‘사회적기업가’ 키운다,”

<http://news.naver.com/main/read.nhn?mode=LSD&mid=sec&sid1=101&oid=013&aid=0002060285>

Patrick Kingsley, “What exactly is the ‘John Lewis Model’?” The Guardian, February 22, 2012. <http://www.guardian.co.uk/education/shortcuts/2012/feb/22/what-is-john-lewis-model>

SIFE. “About SIFE: Overview.” <http://www.sife.org/aboutsife/Pages/Overview.aspx>

SK Happy School. <http://skhappyschool.com/happyschool/main.html>

Starbucks. “Responsibly grown coffee.”

<http://www.starbucks.com/responsibility/sourcing/coffee>

The Law of Social Enterprise Development. Last modified in April 15, 2012.

<http://www.law.go.kr/lsSc.do?menuId=0&p1=&query=%EC%82%AC%ED%9A%8C%EC%A0%81%EA%B8%B0%EC%97%85&x=0&y=0#liBgcolor0>

Wikipedia. "Corporate Social Responsibility." Last modified June 5, 2012.

[http://en.wikipedia.org/wiki/Corporate\\_social\\_responsibility](http://en.wikipedia.org/wiki/Corporate_social_responsibility)

Wikipedia. "Market." Last modified June 5, 2012. <http://en.wikipedia.org/wiki/Market>

Wikipedia. "Muhammad Yunus." Last modified June 5, 2012.

[http://en.wikipedia.org/wiki/Grameen\\_Bank](http://en.wikipedia.org/wiki/Grameen_Bank)

